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UNITED NATIONS OFFICE FOR PROJECT SERVICES

ANNUAL REPORT OF THE EXECUTIVE DIRECTOR ON THE ACTIVITIES OF THE UNITED NATIONS OFFICE FOR PROJECT SERVICES

SUMMARY

The present report and the statistical summary (DP/1997/19/Add.1) are submitted pursuant to Executive Board decision 94/32 of 10 October 1994. UNOPS has met the majority of its 1996 financial targets and has operated in accordance with the self-financing principle. The report also describes actions taken with regard to the UNOPS reorganization previously reported in DP/1996/23.

I. BACKGROUND

1. In its decision 94/32 of 10 October 1994, the Executive Board requested the Executive Director to report annually on the activities of the United Nations Office for Project Services (UNOPS).

2. In line with decision 95/1 of 10 January 1995, which approved the role and functions of the UNOPS Management Coordination Committee (MCC), this report has been reviewed and cleared by the MCC.

3. Since its inception, UNOPS has adopted business planning as one of its distinctive management practices. The business variables and targets contained in the 1996 Business Plan, made available to the Executive Board at its third regular session 1996, are consistently used in the present report. Data for fiscal year 1996 data contained in the report are provisional and unaudited as of the end of January 1997.

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II. FINANCIAL PERFORMANCE

4. The financial viability of UNOPS as an entirely self-financing entity depends on the demand for UNOPS services. UNOPS clients have other options, and the attractiveness of UNOPS services to its clientele therefore depends on such factors as competitiveness, quality, cost-effectiveness, efficiency and timeliness.

5. The demand for the Office's services had been steadily increasing until 1993, when uncertainty regarding its future caused a marked decline. Figure 1 provides the record of acquisition of new business for each of the years from 1986 to 1996. It also portrays the recovery since the time of the Executive Board's landmark decision 94/12 recommending the establishment of UNOPS to the General Assembly. UNOPS set a target of $500 million for new business acquisition in 1996. By the end of the year, newly acquired business amounted to $534 million, exceeding the target by 6.8 per cent.

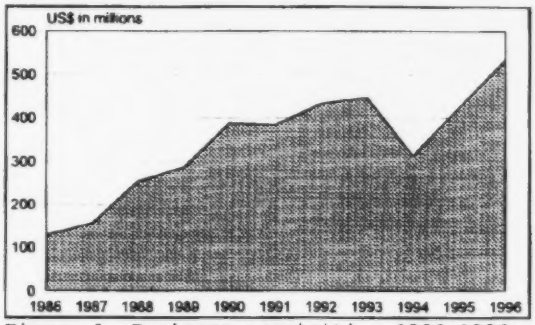

Figure 1. Business acquisition 1986-1996

6. The composition of the newly acquired portfolio has been changing since the establishment of UNOPS (figure 2). UNDP core resources account for the largest share, with 37 per cent, followed by Management Services Agreements with

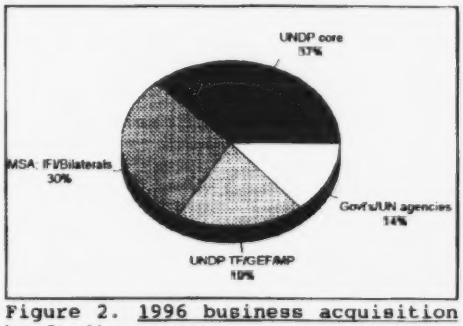

Figure 2. 1996 business acquisition by funding source

resources from international financial institutions and bilateral donors, especially Japan, with 30 per cent; UNDP Trust Funds, the Global Environment Facility and the Montreal Protocol with 19 per cent; and Governments of programme countries and other United Nations agencies and programmes with 14 per cent.

7. Traditionally, UNOPS and its predecessors have mainly provided implementation services, handling clients' financial resources in a manner similar to that of a general contractor. Increasingly, UNOPS is also being asked to provide services in support of project execution and contracting carried out by other parties, such as national Governments of programme countries. Management fees reimburse the cost of providing these services. An example of this modality is the loan administration service provided by UNOPS for nationally executed loans from the International Fund for Agricultural Development (IFAD). In addition to administering loans, UNOPS guides projects toward the attainment of agreed development objectives, helping strengthen the staff capacity of national executing agencies.

8. Funds committed by UNOPS clients for implementation by UNOPS, referred to as the project portfolio, amounted to $1.4 billion at the beginning of 1997. In addition, as of January 1997, IFAD has entrusted 126 of its loans to UNOPS, making UNOPS the largest IFAD cooperating institution. The value of the loans administered on behalf of IFAD exceeds $1.5 billion, bringing the overall value of the development funds for which UNOPS assumes responsibility to some $3 billion.

9. With regard to delivery, the 1996 target was set in the Business Plan at $454 million. Provisional data indicate a delivery of $433 million, which would yield a delivery rate of 95 per cent of the target (figure 3). Of particular note is the strong delivery in the UNDP core budget portfolio, reaching $179 million. This level of delivery continues an upturn that began in 1995, and is the highest single-year delivery of UNDP core resources UNOPS has ever provided. In addition to funds handled on behalf of clients, UNOPS programme supervision has led to the disbursement of $129 million in IFAD loans, representing 50 per cent of IFAD total disbursement in 1996.

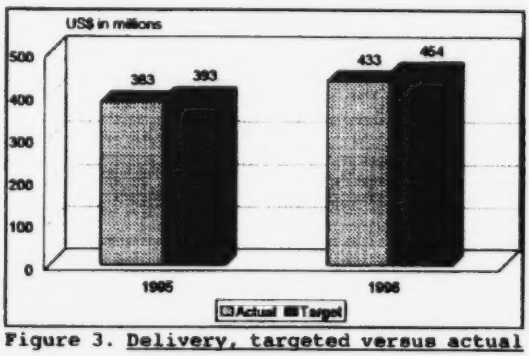

Figure 3. Delivery, targeted versus actual

10. In the 1996 Business Plan, 1996 income was estimated at $33.2 million. Provisional data indicate that income will be approximately $36.9 million, or 11 per cent above the target. The rise in income for 1996 is related to several factors:

(a) As noted in the report of the External Auditors, different income rates apply to the various components of the UNOPS portfolio. Strong delivery in a component with a higher rate structure, such as the UNDP core budget portfolio, reimbursed according to administrative and operational services (AOS) rates, contributes to an increase in income;

(b) Different types of project yield income at different points in the project cycle. Management services agreements (MSAs), for example, generate income relatively early in the implementation cycle;

(c) UNOPS income also includes additional elements such as interest income and, during 1996, items such as the contribution from the Government of Denmark relating to the relocation of the Division for Procurement Projects to Copenhagen;

(d) UNOPS anticipates that demand for the "services only" element in its portfolio, already associated with over 10 per cent of UNOPS income in 1995 and 1996, will continue to increase in dollar value. This type of income is not directly correlated with delivery of resources entrusted to UNOPS.

11. The largest portion of UNOPS income, 85 per cent, has been generated by projects for which funds were entrusted to UNOPS (figure 4). More than 11 per cent of the 1996 income derives from fees for "services only" activities, with the remaining 4 per cent coming from interest income, the relocation contribution from the Government of Denmark, and miscellaneous income. While income from delivery of the UNDP core budget portfolio increased in dollar value, UNOPS income derived from the implementation of UNDP core projects was below fifty per cent, underlining UNOPS efforts to diversify its portfolio.

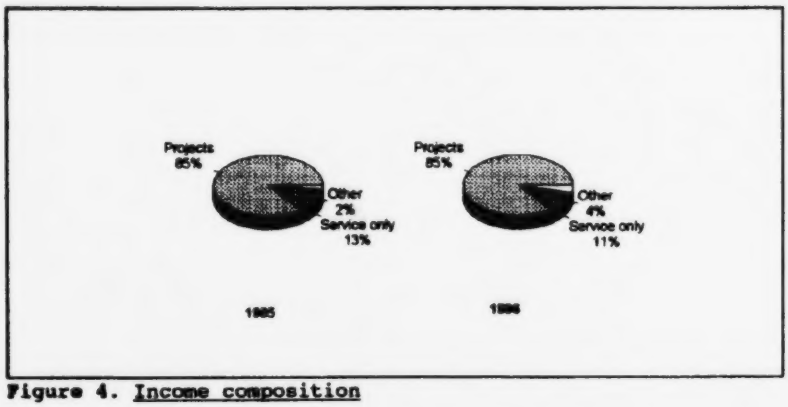

Figure 4. Income composition

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12. Administrative cost for 1996 is estimated at $33.6 million, i.e., $0.9 million higher than foreseen in the Business Plan (figure 5). This amount includes the estimated cost for central services and country office services provided by UNDP, the reimbursement formula, which is still under review at the time of writing. There may therefore be some variance in this figure when the accounts are finalized. The administrative cost elements that are under UNOPS direct control, and are therefore firm, amount to $29.9 million.

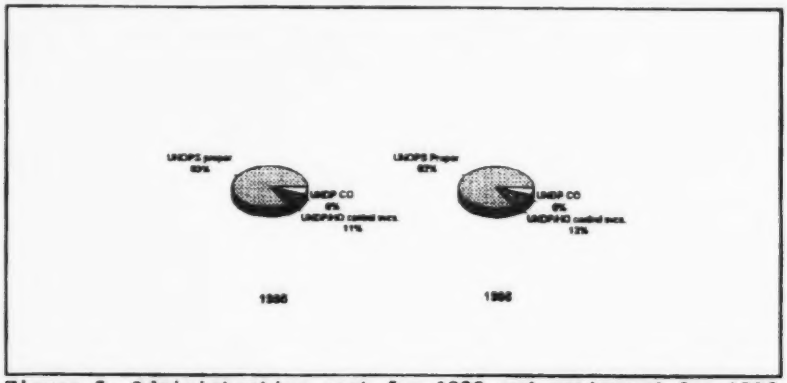

Figure 5. Administrative cost for 1995 and estimated for 1996

13. The administrative overhead on funds handled on behalf of clients is an essential element of UNOPS competitiveness. The administrative cost varies considerably from project to project, depending on the nature and extent of services required from UNOPS. For the larger portion of the UNOPS portfolio, overhead costs are negotiated with the client and/or funding source on the basis of estimated actual expenditures, determined with the aid of a computer-based workload calculation system. These negotiated overhead amounts are budgeted as dollar amounts by cost category, rather than on an overall percentage basis, and provide a degree of transparency that cannot be achieved with a flat rate. The overall average overhead rate for the entire UNOPS portfolio will again be slightly less than 7 per cent for 1996 (figure 6).

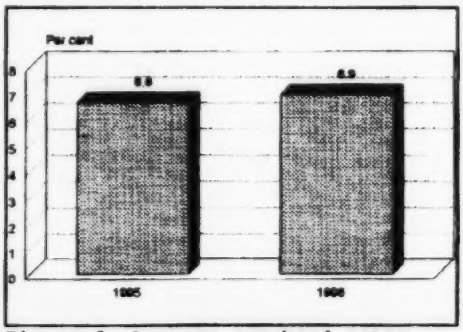

Figure 6. Average overhead rates

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14. In 1996, UNOPS was again able to operate in accordance with the self-financing principle (figure 7), with provisional data suggesting that UNOPS came close to or exceeded most of the targets in its 1996 Business Plan. UNOPS has entered 1997 confident that the tools it has developed - the Financial Management Model and the business planning process - will permit it to maintain a tight balance between providing high value and quality of service while meeting its basic financial needs.

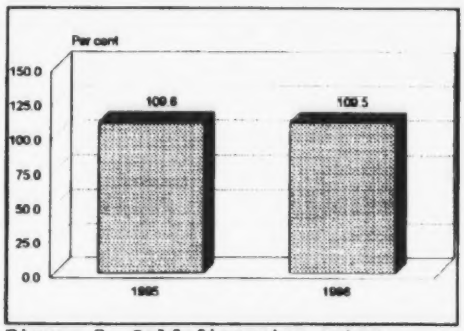

Figure 7. Self-financing rates

III. REVIEW OF THE NON-FINANCIAL OBJECTIVES OF THE BUSINESS PLAN

15. Significant progress has been made on many of the management objectives identified in the Business Plan and others that were included during the course of the year as a result of the recommendations of the Board of External Auditors.

16. The post of Director of Operations, which includes the function of Deputy Executive Director, has been established and filled in mid-1996. The first Assistant Director of the new Division of Finance, Control and Administration has been recruited and is expected to report on 1 March 1997. Recruitment is under way for the post of Business Acquisition Coordinator, vacated in 1996. Information and promotional materials have been produced for major service products available from UNOPS, and a new World Wide Web site (www.unops.org) now includes information on procurement opportunities. Mission and vision statements have been developed with staff, providing a common denominator for work approaches throughout the organization. Rosters for consultants, firms and suppliers, essential tools for all operational units, have been overhauled and placed under the responsibility of the Director of Operations. Arrangements for introducing a client service and hotline facility are being made at the time of writing. Progress in the area of human resources management is described in paragraph 23 below.

17. Work on the 1997 Business Plan began in January 1997, with individual unit plans and targets due by the middle of February 1997. In 1997, administrative

budget allotments will be issued, for the first time, to individual operational units. This delegation, accompanied by a strengthening of monitoring mechanisms, is intended to improve the capacity of client-oriented work groups to respond to the demands placed on them, within a framework of heightened accountability for results and cost-effectiveness.

A. UNOPS reform and reorganization

18. In document DP/1996/23, the Executive Director reported on organizational changes in UNOPS. The basic cycle of reforms, which is meant to bring UNOPS in line with the principles laid down in the decisions of the Executive Board, is due for completion in 1997. This process is summarized in the following paragraphs.

19. Key features of the UNOPS reform include the establishment of integrated operations teams, which join under single management both project management and service specialists (purchasing, recruitment, payments), who had previously been assigned to separate organizational units. These teams, oriented to specific clients, have the resources and authority to respond to the majority of their clients' needs, thus reducing bureaucracy and paperwork. The formation of these teams has now been completed.

20. Non-operational functions were restructured into units that support the integrated teams. The Division for Policy and Contracts contributes to the development of new and competitive contractual modalities and has been instrumental for the introduction in UNOPS of the practice of best value source selection. The Division for Finance, Control and Administration now includes the new functions of standards monitoring, including quality oversight and periodic reviews of the exercise of authority delegated to headquarters units and to offices away from headquarters. In addition to its lead role in business planning, the Division for Planning and Information is in charge of all information resources, including computer-based information, as well as the production of reports and promotional materials.

21. Decentralization is pursued where this leads to improved service at lower cost, while maintaining the principle that offices away from headquarters also operate on a self-financing basis. For some time, UNOPS has operated offices in El Salvador, Kuala Lumpur and Nairobi. In 1996, it established new offices in Copenhagen and Geneva. With the move of the Division for Procurement Projects to Copenhagen, where UNDP had relocated the Inter-Agency Procurement Services Office a few years earlier, UNDP and UNOPS established a markedly better response capacity for procurement needs than had previously existed in the United Nations system. The conditions offered to UNOPS by the Government of Denmark have led to a decrease in the average cost of procurement operations of 10 to 15 per cent. The Rehabilitation and Social Sustainability Unit (RESS), which had been established in 1995 as part of the UNOPS reorganization, moved to Geneva in the fall of 1996. The RESS Unit is charged with responsibility for

social rehabilitation projects in countries in crisis and in transition, including those intended to help rebuild war-torn societies. Its activities contribute to the reintegration of returning refugees, internally displaced populations, and demobilized combatants. In developing and continuously refining methods for participatory, multisectoral development at the local level, it benefits from the presence in Geneva of personnel from other agencies with which UNOPS collaborates closely on such projects, including the Office of the United Nations High Commissioner for Refugees, the International Labour Organization, the World Health Organization, the Department of Humanitarian Affairs/International Decade for Natural Disaster Reduction, the United Nations Research Institute for Social Development, and UNDP. As in the case of the Copenhagen Office, the Government of Switzerland has financed the relocation of the RESS Unit. The continued financial viability of UNOPS decentralized offices is reviewed on an annual basis.

22. Improvements and innovations in systems and procedures are being incorporated into the UNOPS Operations Handbook, which has been converted to electronic format and is available to staff in all locations. In 1996, all standard UNOPS documents in three languages were reviewed, updated, and included in the electronic Handbook. Delegations of authority were consolidated and simplified and, along with new guidelines for the implementation of Montreal Protocol projects, also added to the Handbook. The formation of integrated operations teams is also resulting, as intended, in the streamlining of numerous procedures, particularly with regard to payments and procurement. As such innovations are found suitable for application beyond the unit which devised them, they also are incorporated in the Handbook.

23. Reform efforts in the staff and staff development area show most visibly the cultural changes helping to transform UNOPS into a market-driven service organization. Staff and Management together operate a Staff Management Forum (SMF), a body in which both parties deal with issues having a bearing on conditions of work and on the standing of the individual in the organization. The SMF has been deeply involved in developing the new tools for human resources management. The new performance appraisal system, which is being implemented on a pilot basis in 1997:

(a) Creates close links to work planning, job design, training needs assessment and career development and evaluation;

(b) Functions in a supportive work climate where staff are given considerable responsibility, and are held accountable for their actions;

(c) Incorporates not only the views of supervisors, but also of peers, supervisees (reverse appraisal) and, in the future, clients;

(d) Allows staff to assess their achievements in the light of personal goals derived from their unit's work plans; and

(e) Is designed to require little time to complete and few resources to manage.

24. A close linkage is being established between the results of the appraisal process and a broad set of incentives and rewards. All measures taken in this area have been developed so as to remain consistent with the guidelines of the International Civil Service Commission.

B. Other developments

25. Increasing demand for activities in the area of social rehabilitation and reconstruction had been at the origin of the establishment of the RESS Unit (see paragraph 21 above). This subject is also of considerable interest to UNDP and the Department for Development Support and Management Services of the United Nations (DDSMS). At the request of the MCC, UNDP, DDSMS and UNOPS produced a joint paper outlining their respective responsibilities in this field. The MCC endorsed the following roles for the three organizations:

(a) UNDP retains the role of coordination, advocacy, resource mobilization and overall programming and monitoring;

(b) DDSMS has the substantive leadership in strengthening human and institutional capacities in the area of governance in its broad sense, encompassing integrated development and public management;

(c) UNOPS assumes responsibility for implementation and management services at all phases of the programme cycle.

26. In response to earlier discussion in the Executive Board and at the request of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), UNOPS has completed an analysis of risk exposure and the financial implications thereof. Having been advised by ACABQ that it will not be able to review the document containing the findings and recommendations of that analysis in time for the annual session, UNOPS will submit the document at the third regular session, in conjunction with the biennial budget revision.

27. Progress on an agreement between UNDP and UNOPS was slow in 1996. It has been decided to divide such an agreement into three distinctive parts. First, a Memorandum of Understanding dealing with the basic issues flowing from the separation of UNDP and UNOPS forms the umbrella agreement. At the time of writing, a draft agreement has been completed and submitted to the United Nations Office of Legal Affairs (OLA). Second, an agreement on the provision of internal audit services has been completed and awaits signature. Third, details regarding the majority of central services to be provided to UNOPS by UNDP in the areas of personnel, finance, and general administration have been agreed upon. The costing arrangements for these services will now be negotiated on the basis of a work load study conducted by UNDP, with discussions commencing in February 1997.

28. The UNOPS Users Advisory Group (UAG), endorsed in Executive Board decision 95/1 of 10 January 1995, had its first meeting in New York on 11 July 1996 under the Chairmanship of the Under-Secretary-General, DDSMS. The meeting was attended

by representatives of 26 organizations or entities of the United Nations system. Participants at the meeting recommended that in future UAG also function as a forum for the exchange of experiences with innovative modalities for the implementation and management of development projects and programmes. In line with this recommendation, the agenda for the next UAG meeting includes an item on evolving operational modalities of cooperation, including new forms of contractual arrangements between organizations of the United Nations system and non-governmental organizations.

C. Statistical update

29. UNOPS performance in procurement, contracting and fellowships is summarized in addendum 1 to the present document.

IV. DRAFT DECISION

30. The Executive Board may wish to:

(a) Take note of the report of the Executive Director of the United Nations Office for Project Services (DP/1997/19), further noting the progress made by the Office in recovering from the decline in business that preceded its establishment and in diversifying the clientele to which it provides services;

(b) Request the Executive Director to continue to report annually on the activities of the United Nations Office for Project Services, pursuant to Executive Board decision 94/32 of 10 October 1994.

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